

FLORIDA PUBLIC SERVICE COMMISSION

VOTE SHEET

MAY 17, 2005

RE: Docket No. 040450-WS - Application for rate increase in Martin County by Indiantown Company, Inc. (Deferred from April 19, 2005 conference; revised recommendation filed.)

Issue 1: Should the quality of service provided by Indiantown Company, Inc. be considered satisfactory?

Recommendation: Staff recommends that the utility's overall quality of service is marginal. Indiantown should be required to make all repairs or corrections mandated by Department of Environmental Protection.

APPROVED

COMMISSIONERS ASSIGNED: All Commissioners

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

Lois E. Edger
Cheryl Bradley
Michael
Jerry
David

REMARKS/DISSENTING COMMENTS:

DOCUMENT NUMBER-DATE

04786 MAY 17 05

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Issue 2: Should stipulated rate base adjustments be made?

Recommendation: Yes. Based on uncontested audit adjustments, plant should be decreased by (\$39,851) for water and (\$448) for wastewater, and accumulated depreciation should be decreased by \$42,938 for water and \$11,925 for wastewater. In addition, wastewater accumulated amortization of CIAC should be increased by \$3,030.

APPROVED

Issue 3: Should any plant items placed into service prior to 1975 be retired?

Recommendation: Yes. Because the utility has no detail regarding what types of plant are included in Accounts Nos. 348 and 398, Other Tangible Plant for water and wastewater, respectively, and because the plant in these accounts will be fully depreciated before the recommended rates go into effect in 2005, the following adjustments should be made to retire this plant.

APPROVED

Issue 4: Should adjustments be made to reflect additional retirements?

Recommendation: Yes. Plant and accumulated depreciation should each be reduced by \$51,910 for water and \$94,634 for wastewater. Correspondingly, depreciation expense should be reduced by \$1,367 for water and \$3,934 for wastewater.

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Issue 5: Should an adjustment be made to the utility's pro forma plant and expense items?

Recommendation: Yes. Plant should be increased by \$4,131 for water and decreased by (\$48,723) for wastewater. Corresponding adjustments should be made to increase water accumulated depreciation by (\$112) and decrease wastewater accumulated depreciation by \$66,887. Corresponding adjustments should also be made to increase depreciation expense by \$226 for water and \$1,160 for wastewater. Further, operation and maintenance (O&M) expenses for wastewater should be increased by \$2,788.

APPROVED

Issue 6: Does the utility have any excessive unaccounted for water and infiltration and inflow, and, if so, are adjustments necessary?

Recommendation: Yes. Indiantown has 5.0% excessive unaccounted for water and 6.67% excessive infiltration and inflow for wastewater. Therefore, purchased power and chemicals should be reduced by \$2,231 for water and \$4,920 for wastewater.

APPROVED

Issue 7: What are the used and useful percentages for the utility's water treatment plant, wastewater treatment plant, water distribution system, and wastewater collection system?

Recommendation: Indiantown's used and useful percentages should be as follows:

Water Treatment Plant	100%
Wastewater Treatment Plant	73.86%
Water Distribution and Wastewater Collection Systems	100%

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Issue 8: What is the appropriate working capital allowance?

Recommendation: The appropriate amount of working capital is \$68,841 for water and ~~\$91,232~~ \$88,714 for wastewater.

APPROVED

Issue 9: What is the appropriate rate base?

Recommendation: Consistent with other recommended adjustments, the appropriate average rate base for the test year ending December 31, 2003 is \$387,964 for water and ~~\$1,045,123~~ \$1,042,605 for wastewater.

APPROVED

Issue 10: What is the appropriate return on common equity?

Recommendation: The appropriate return on common equity is 10.13% based on the Commission leverage formula currently in effect. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

APPROVED

Issue 11: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2003?

Recommendation: The appropriate weighted average cost of capital for the test year ended December 31, 2003 is 8.98%.

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Issue 12: Should an adjustment be made to water revenues?

Recommendation: Yes. To reflect the appropriate receipt of base facility charges for the Indiantown Marina, water revenues should be increased by \$2,107.

APPROVED

Issue 13: Should stipulated net operating income adjustments be made?

Recommendation: Yes. Based on uncontested audit adjustments, revenues should be reduced by (\$1,382) for water and increased by \$1,382 for wastewater, and O&M expenses should be reduced by (\$18,198) for water and (\$35,028) for wastewater. Further, depreciation expense should be reduced by (\$7,209) for water and (\$3,403) for wastewater, and payroll taxes should be increased by \$2,720 for water and decreased by (\$1,599) for wastewater.

APPROVED

Issue 14: Should any further adjustments be made to employee salaries?

Recommendation: Water salaries and benefits should be reduced by \$28,519 and \$4,818, respectively. Wastewater salaries and benefits should be reduced by \$25,561 and \$4,818, respectively. Corresponding reductions for water and wastewater taxes other than income of \$2,236 and \$1,957, respectively, should also be made.

APPROVED

~~Issue 15: Should an adjustment be made to sludge removal expense?~~

~~Recommendation: Yes. Test year sludge removal expense should be reduced by \$20,145. (As discussed in the case background in staff's May 5, 2005 memorandum, Issue 15 has been dropped.)~~

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Issue 16: Should any portion of purchased power for the utility's water system be removed as non-utility expense?

Recommendation: Yes. Purchased power for the water system should be reduced by (\$356) as non-utility expense.

APPROVED

Issue 17: Should any adjustments be made to amortize certain expenses?

Recommendation: Yes. O&M expenses should be reduced by (\$4,743) for water and (\$2,900) for wastewater, in order to amortize non-recurring expenses over five years.

APPROVED

Issue 18: Should any further adjustment be made to Materials and Supplies for wastewater?

Recommendation: Yes. To normalize the test year expense level, Material and Supplies (M&S) expense should be reduced by \$13,770 for wastewater.

APPROVED

Issue 19: Should any adjustments be made to management fees?

Recommendation: Yes. Management fees should be reduced by \$15,924 for both water and wastewater. Because it is the utility's burden to prove that its requested costs are reasonable, the utility should begin keeping time logs of the Postco, Inc. and Indiantown Telephone System, Inc. employees who spend time on Indiantown's water and wastewater operations, in order to reflect the actual time spent.

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Issue 20: Should water and wastewater expenses be adjusted due to repression?

Recommendation: Yes. It is Commission practice to reduce chemicals and purchased power for repression of water and wastewater gallons. Thus, chemicals and purchased power should be reduced by (\$830) for water and (\$1,198) for wastewater.

APPROVED

Issue 21: What is the appropriate amount of rate case expense?

Recommendation: The appropriate rate case expense for this docket is \$115,442. This expense should be recovered over four years for an annual expense of \$28,861.

APPROVED

Issue 22: What is the appropriate amount of the utility's parent debt adjustment?

Recommendation: The appropriate parent debt adjustment should be \$994 for water and ~~\$2,679~~ \$2,672 for wastewater.

APPROVED

Issue 23: What is the test year water and wastewater operating income before any revenue increase?

Recommendation: Based on the adjustments discussed in previous issues, staff recommends that the test year water operating loss before any provision for increased revenues should be ~~(\$11,811)~~ (\$11,812). The test year wastewater operating loss income before any provision for increased revenues should be ~~(\$4,634)~~ \$7,888.

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Issue 24: What is the appropriate revenue requirement?

Recommendation: The following revenue requirement should be approved.

	<u>Test Year Revenues</u>	<u>\$ Increase</u>	<u>Revenue Requirement</u>	<u>% Increase</u>
Water	\$611,975	<u>\$78,334</u> \$78,325	<u>\$690,309</u> \$690,300	12.80%
Wastewater	\$872,434	<u>\$165,384</u>	<u>\$1,037,818</u> \$1,016,388	<u>18.96%</u> 16.50%

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Issue 25: Are continuations of the utility's current rate structures for its water and wastewater systems appropriate in this case, and, if not, what are the appropriate rate structures for the respective water and wastewater systems?

Recommendation: No. The utility's current rate structures for its water and wastewater systems should not be continued. The water system rate structure should be changed to a three-tier inclining-block rate structure, with usage blocks of: a) 0-8 kgal; b) 8.001-15 kgal; and c) usage in excess of 15 kgal. The usage block rate factors should be 1.0, 1.25 and 1.5, respectively, with the BFC cost recovery percentage set at 40%. The wastewater gallonage cap for residential customers should be increased from 6 kgal to 10 kgal.

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Issue 26: Are repression adjustments appropriate in this case, and, if so, what are the appropriate adjustments for the water and wastewater systems and the resulting kgals for ratesetting for the respective systems?

Recommendation: Yes. Repression adjustments are appropriate for both the water and wastewater systems. Residential consumption should be reduced by 2.3%, resulting in a consumption reduction of approximately 3.7 kgals. The resulting total water consumption for ratesetting is 210,645 kgals. Residential wastewater usage, capped at 10 kgal, should also be reduced by 2.3%, resulting in a consumption reduction of approximately 2.7 kgal. The resulting total wastewater consumption for ratesetting is 151,035 kgals. In order to monitor the effects of both the changes in rate structures and revenues, the utility should prepare monthly reports for both the water and wastewater systems, detailing the number of bills rendered, the consumption billed, and the revenues billed. These reports should be provided to staff. In addition, the reports should be prepared, by customer class and meter size, on a quarterly basis for a period of two years, beginning the first billing period after the approved rates go into effect.

APPROVED

Issue 27: What are the appropriate water and wastewater rates?

Recommendation: The appropriate water and wastewater monthly rates are shown on Schedules Nos. 4-A and 4-B of staff's May 5, 2005 memorandum, respectively. Excluding miscellaneous service revenues, the recommended water and wastewater rates are designed to produce revenues of ~~\$664,968~~ ~~\$664,960~~ and ~~\$1,036,253~~ ~~\$1,014,823~~, respectively. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date the notice was given no less than 10 days after the date of the notice.

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Issue 28: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation: The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenues granted. Based on this calculation, no water or wastewater interim refunds should be made and the total wastewater amount of what would have been the interim refund plus interest should be credited to CIAC. Further, upon issuance of the Consummating Order in this docket, the letter of credit should be released.

APPROVED

Issue 29: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

Recommendation: The rates should be reduced as shown on Schedules Nos. 4-A and 4-B to remove \$15,318 for water and \$14,841 for wastewater rate case expense, grossed up for regulatory assessment fees, which is being amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction.

APPROVED

Issue 30: Should the utility be required to provide proof, within 90 days of the date of the Consummating Order finalizing this docket, that it has adjusted its books for all the applicable NARUC USOA primary accounts associated with the Commission-approved adjustments?

Recommendation: Yes. To ensure that the utility adjusts its books in accordance with the Commission's decision, Indiantown should provide proof, within 90 days of the date of the Consummating Order finalizing this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

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Issue 31: Should this docket be closed?

Recommendation: Yes. If no person whose substantial interests are affected by the proposed agency action issues files a protest within 21 days of the issuance of the order, a consummating order will be issued and this docket should be closed.

APPROVED